



**DEPARTMENT OF
FINANCE**
OFFICE OF THE DIRECTOR

GAVIN NEWSOM - GOVERNOR
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May 17, 2019

Ms. Robbeyn Bird, Finance Director
City of West Covina
1444 West Garvey Avenue
West Covina, CA 91790

Dear Ms. Bird:

Subject: 2019-20 Annual Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 15, 2019. Pursuant to Health and Safety Code (HSC) section 34177 (o) (1), the West Covina Successor Agency (Agency) submitted an annual Recognized Obligation Payment Schedule ROPS for the period July 1, 2019 through June 30, 2020 (ROPS 19-20) to Finance on January 30, 2019. The Agency requested a Meet and Confer on one or more of the determinations made by Finance. The Meet and Confer was held on May 2, 2019.

Based on a review of additional information and documentation provided to Finance during the Meet and Confer process, Finance has completed its review of the specific determinations being disputed:

- Item Nos. 11, 142, and 143 – County Deferral payments and repayments to the City of West Covina (City) totaling \$4,852,573. Finance continues to deny these items. Finance initially denied Item No. 11 because it is our understanding this item is for deferred County pass-through payments and pursuant to HSC section 34183 (a) (1), the County Auditor-Controller (CAC) shall make the required pass-through payments. In addition, Finance previously denied Item Nos. 142 and 143 for the County Deferral payments made by the City during the ROPS 17-18 and 18-19 periods because pursuant to HSC section 34173 (h) (1), the City may loan the Agency funds to the extent the Agency did not receive its entire Redevelopment Property Tax Trust Fund (RPTTF) distribution as approved by Finance; however, the Agency received its entire RPTTF distribution for those periods.

During the Meet and Confer, the Agency did not dispute the debt is for pass-through payments. However, the Agency contends it requested to use Other Funds in error during the ROPS 17-18 and 18-19 periods; therefore, the City had to pay the County Deferral payments from its General Fund. However, the additional information provided does not support the need to have Item No. 11 on the ROPS. Further, since the Agency did not experience a shortfall during the ROPS 17-18 and 18-19 periods, nor did it have a valid loan agreement with the City, Item Nos. 142 and 143 are not enforceable obligations.

Therefore, the requested amount totaling \$4,852,573 (\$1,202,573 + \$1,850,000 + \$1,800,000) in RPTTF funding is not allowed. In addition, Item Nos. 142 and 143 are duplicate obligations of Item No. 11 and are therefore retired.

- Item Nos. 23 through 25 – City loan repayments in the total outstanding amount of \$21,844,242. Finance continues to deny these items. Finance initially denied these City loans in its Oversight Board (OB) Resolution No. OB-0045 determination letter dated March 9, 2016. Specifically, in February 1972, the redevelopment agency (RDA) and the City entered into a Funding Agreement where the City made periodic advances through the budgeting appropriation process to the RDA for administrative, overhead, and capital improvement expenses. Under dissolution law, reimbursements for City personnel and use of City facilities would not be considered a loan eligible for repayment. The Agency did not provide additional documentation during the Meet and Confer; therefore, these items are not enforceable obligations and the requested amount totaling \$2,184,426 (\$728,142 + \$728,142 + \$728,142) in RPTTF funding is not allowed.
- Item No. 26 – Sales Tax Reimbursement in the total outstanding amount of \$7,050,992. This item was previously denied in our determination letters dated April 10, 2017, May 17, 2017, April 7, 2018, May 17, 2018, and April 15, 2019; Finance continues to deny this item. Finance denied this item because City loans for the sales and use tax revenue received by the RDA per the 2005 Sales Tax Reimbursement Agreement (Agreement) are not funds transferred from the City; therefore, they are not considered loans of moneys in accordance with HSC section 34191.34 (b) (2) (A). In a letter from the Agency's attorney, Jones & Mayer, dated November 18, 2016, the Agency contends the Agreement is an obligation consistent with HSC sections 34171 (d) (2) and 34191.4 and requested Finance to reconsider denial of the Agreement.

HSC section 34171 (d) (2) states RDA agreements with the city that created the RDA are not enforceable unless issued within two years of the RDA's creation date; is an indebtedness obligation entered into before December 31, 2010 at the time of an indebtedness issuance, solely for the purpose of repaying the indebtedness; is an agreement relating to state highway infrastructure improvements; or is an agreement pursuant to loans or development obligations imposed by federal agencies. The 2005 Agreement was to reimburse the City for the sales taxes used to pay a 1989 bond debt issuance. Therefore, the 2005 Agreement was not made at the time the bonds were issued and does not meet any of the other criteria of an enforceable obligation pursuant to HSC section 34171 (d) (2).

HSC section 34191.4 (b) (2) (A) authorizes an OB to approve loans for money entered into between the former RDA and the city that created the former RDA in which the city loaned money to the former RDA to use for a lawful purpose, in which the former RDA was obligated to repay the City pursuant to a required repayment schedule. However, in this case, the RDA received the one percent sales and use tax revenue pursuant to RDA Ordinance No. 1 and pursuant to an agreement between the RDA and the Board of Equalization (BOE). The City was not a party to the BOE agreement.

The Agency did not provide any additional documentation during the Meet and Confer. It is our continued understanding that this is a reimbursement agreement, an agreement entered into outside of the issuance of an indebtedness obligation, and there was no actual loan of moneys from the City to the RDA. Therefore, the Agreement is not an enforceable obligation, and the requested amount of \$611,890 in RPTTF funding is not allowed.

- Item Nos. 50 and 51 – Unfunded Pension Liabilities and Retirement Benefits in the total outstanding amount of \$2,191,306. These items were previously denied in our determination letters dated April 10, 2017, May 17, 2017, April 7, 2018, May 17, 2018, and April 15, 2019; Finance continues to deny these items. It is our understanding contracts obligating the Agency for these costs are not in place. HSC section 34163 (b) prohibits a

RDA from entering into a contract with any entity after June 27, 2011. The Agency did not provide any additional documentation during the Meet and Confer. Therefore, the requested amount totaling \$2,191,306 (\$1,073,575 + \$1,117,731) in RPTTF funding is not allowed.

- Item No. 76 – City Loan Agreement in the total outstanding amount of \$1,226,433. This item was previously denied in our determination letters dated April 10, 2017, May 17, 2017, April 7, 2018, May 17, 2018, and April 15, 2019; Finance continues to deny this item. Per Finance's OB-0030 and OB-0031 determination letter dated January 16, 2015, we continued to deny a City loan agreement to reimburse the City for litigation fees incurred during 2012 and claimed as ROPS Item Nos. 31 through 38, 73, and 101. The Agency did not provide any additional documentation during the Meet and Confer. Therefore, the requested amount of \$1,226,433 in RPTTF funding is not allowed.
- Item No. 140 – 2017 Tax Allocation Refunding Bond debt service payment in the total requested amount of \$2,181,413. Although not included in the Agency's Meet and Confer request, the Agency realized the wrong debt service payment amount was requested during the annual ROPS. According to the debt service payment schedule, the total amount requested for the ROPS 19-20 period should have been \$2,200,088. Therefore, to accurately reflect the correct debt service payment amount needed, Finance increased the requested amount of RPTTF by \$18,675 to \$2,200,088 (\$2,200,088 - \$2,181,413).

In addition, per Finance's letter dated April 15, 2019, we continue to make the following determinations not contested by the Agency during the Meet and Confer review:

- Item No. 3 – 2006 Lease Revenue Bonds debt service payment in the total requested amount of \$1,324,278 is partially allowed. Although this item is considered an enforceable obligation, according to the payment schedule provided by the Agency, the total amount requested for the ROPS 19-20 period should be \$1,314,778. Therefore, to accurately reflect the correct payment, Finance decreased the requested amount of RPTTF by \$9,500 to \$887,389 (\$896,889 - \$9,500) for the ROPS 19-20B period.
- Item No. 28 – 1996 Community Facilities District Refunding Bonds debt service payment in the total requested amount of \$7,361,550 is partially allowed. According to the debt service schedule, the total amount requested for the annual ROPS should be \$4,436,250. Therefore, to accurately reflect the correct debt service payment, Finance decreased the Other Funds requested amount by \$2,931,750 to \$4,048,950 (\$6,980,700 - \$2,931,750) for the ROPS 19-20 A period and increased the requested amount of Other Funds by \$6,450 to \$387,300 (\$380,850 + \$6,450) for the ROPS 19-20B period.
- Item No. 106 – City Loan repayment in the amount of \$2,747,714 is partially allowed. HSC section 34191.4 (b) (3) (A) allows repayment to be equal to one-half of the increase between the ROPS residual pass-through distributed to the taxing entities in the preceding fiscal year and the ROPS residual pass-through distributed to the taxing entities in the fiscal year 2012-13 base year.

According to the Los Angeles CAC's report, the ROPS residual pass-through amounts distributed to the taxing entities for fiscal year 2012-13 and 2018-19 are \$3,907,263 and \$10,550,502, respectively. Pursuant to the repayment formula, the maximum repayment amount authorized for the ROPS 19-20 period is \$3,321,620. The Agency requested amounts totaling \$3,372,596 for Item Nos. 6, 7, and 106, which exceeds the maximum repayment amount by \$50,976. Therefore, with the Agency's concurrence, of the \$2,747,714 requested for Item No. 106, \$50,976 is ineligible for RPTTF funding. The Agency may be eligible for additional funding on a subsequent ROPS.

- The claimed administrative costs exceed the allowance by \$90,000. HSC section 34171 (b) (3) limits the fiscal year Administrative Cost Allowance (ACA) to three percent of actual RPTTF distributed in the preceding fiscal year or \$250,000, whichever is greater; not to exceed 50 percent of the RPTTF distributed in the preceding fiscal year. As a result, the Agency's maximum ACA is \$250,000 for fiscal year 2019-20. Although \$340,000 is claimed for ACA, only \$250,000 is available pursuant to the cap. Therefore, as noted in the table below, \$90,000 in excess ACA is not allowed:

Administrative Cost Allowance Calculation	
Actual RPTTF distributed for fiscal year 2018-19	\$ 8,972,197
Less distributed Administrative RPTTF	(250,000)
Less sponsoring entity loan repayments	(2,314,389)
RPTTF distributed for 2018-19 after adjustments	6,407,808
ACA Cap for 2019-20 per HSC section 34171 (b)	250,000
ACA requested for 2019-20	340,000
Plus amount reclassified to ACA	0
Total ACA	340,000
ACA in Excess of the Cap	\$ (90,000)

Pursuant to HSC section 34186, successor agencies are required to report differences between actual payments and past estimated obligations. Reported differences in RPTTF are used to offset current RPTTF distributions. The amount of RPTTF approved in the table on Page 6 includes the prior period adjustment resulting from the CAC's review of the prior period adjustment form submitted by the Agency.

The Agency's maximum approved RPTTF distribution for the reporting period is \$9,416,800 as summarized in the Approved RPTTF Distribution table on Page 6 (see Attachment).

RPTTF distributions occur biannually, one distribution for the July 1 through December 31 period (ROPS A period), and one distribution for the January 1 through June 30 period (ROPS B period) based on Finance approved amounts. Since this determination is for the entire ROPS 19-20 period, the Agency is authorized to receive up to the maximum approved RPTTF through the combined ROPS A and B period distributions.

This is our final determination regarding the obligations listed on the ROPS 19-20. This determination only applies to items when funding was requested for the 12-month period. If a denial by Finance in a previous ROPS is currently the subject of litigation, the item will continue to be denied until the matter is resolved.

The ROPS 19-20 form submitted by the Agency and this determination letter will be posted on our website:

<http://dof.ca.gov/Programs/Redevelopment/ROPS/>

This determination is effective for the ROPS 19-20 period only and should not be conclusively relied upon for future ROPS periods. All items listed on a future ROPS are subject to review and may be denied even if not denied on this ROPS or a preceding ROPS. The only exception is for items that have received a Final and Conclusive determination from Finance pursuant to HSC section 34177.5 (i). Finance's review of Final and Conclusive items is limited to confirming the scheduled payments as required by the obligation.

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The amount available from RPTTF is the same as the amount of property tax increment available prior to the enactment of redevelopment dissolution law. Therefore, as a practical matter, the ability to fund the items on the ROPS with property tax increment is limited to the amount of funding available to the Agency in RPTTF.

Please direct inquiries to Nichelle Jackson, Supervisor, or Veronica Zalvidea, Lead Analyst, at (916) 322-2985.

Sincerely,



 JENNIFER WHITAKER
Program Budget Manager

cc: Ms. Paulina Morales, Project Manager, City of West Covina
Ms. Kristina Burns, Manager, Department of Auditor-Controller, Los Angeles County

Attachment

Approved RPTTF Distribution For the period of July 1, 2019 through June 30, 2020			
	ROPS A Period	ROPS B Period	ROPS 19-20 Total
RPTTF Requested	\$ 17,245,391	\$ 3,552,624	\$ 20,798,015
Administrative RPTTF Requested	172,500	167,500	340,000
Total RPTTF Requested	17,417,891	3,720,124	21,138,015
RPTTF Requested	17,245,391	3,552,624	20,798,015
<u>Adjustments</u>			
Item No. 3	0	(9,500)	(9,500)
Item No. 11	(1,202,573)	0	(1,202,573)
Item No. 23	(728,142)	0	(728,142)
Item No. 24	(728,142)	0	(728,142)
Item No. 25	(728,142)	0	(728,142)
Item No. 26	(611,890)	0	(611,890)
Item No. 50	(1,073,575)	0	(1,073,575)
Item No. 51	(1,117,731)	0	(1,117,731)
Item No. 76	(1,226,433)	0	(1,226,433)
Item No. 106	(50,976)	0	(50,976)
Item No. 140	0	18,675	18,675
Item No. 142	(1,850,000)	0	(1,850,000)
Item No. 143	(1,800,000)	0	(1,800,000)
	(11,117,604)	9,175	(11,108,429)
RPTTF Authorized	6,127,787	3,561,799	9,689,586
Administrative RPTTF Requested	172,500	167,500	340,000
Excess Administrative Costs	0	(90,000)	(90,000)
Administrative RPTTF Authorized	172,500	77,500	250,000
Total RPTTF Authorized for Obligations	6,300,287	3,639,299	9,939,586
Prior Period Adjustment	(522,786)	0	(522,786)
Total RPTTF Approved for Distribution	\$ 5,777,501	\$ 3,639,299	\$ 9,416,800